Financial Statements
(Expressed in thousands of dollars)

FORENSIC PSYCHIATRIC SERVICES COMMISSION

Year ended March 31, 2012

KPMG LLP
Chartered Accountants
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada

Telephone (604) 691-3000
Fax (604) 691-3031
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners of Forensic Psychiatric Services Commission

We have audited the accompanying financial statements of Forensic Psychiatric Services Commission which comprise the statement of financial position as at March 31, 2012, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Forensic Psychiatric Services Commission as at March 31, 2012, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

June 21, 2012
Vancouver, Canada

FORENSIC PSYCHIATRIC SERVICES COMMISSION

Statement of Financial Position
(Expressed in thousands of dollars)

March 31, 2012, with comparative figures for 2011

	2012	2011
Assets		
Current assets:		
Cash	$ 91	$ 59
Restricted cash	137	126
Accounts receivable (note 2)	16,290	17,098
Inventories of materials and supplies (note 3)	79	79
Prepaid expenses	465	17
	17,062	17,379
Capital assets (note 4)	2,894	2,774
	$ 19,956	$ 20,153
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 5)	$ 6,482	$ 7,101
Current portion of obligations under capital leases (note 6)	33	33
Current portion of retirement allowance (note 7(a))	141	149
	6,656	7,283
Long-term obligations under capital leases (note 6)	10	43
Retirement allowance (note 7(a))	1,268	1,234
Asset retirement obligations (note 10(d))	426	368
Deferred capital contributions (note 8)	2,676	2,479
	11,036	11,407
Net assets:		
Invested in capital assets (note 9(a))	175	219
Unrestricted	8,745	8,527
	8,920	8,746
	$ 19,956	$ 20,153

Commitments and contingencies (note 10)

See accompanying notes to financial statements.

Approved on behalf of the Commission:

Commissioner

Commissioner

FORENSIC PSYCHIATRIC SERVICES COMMISSION

Statement of Operations
(Expressed in thousands of dollars)

Year ended March 31, 2012, with comparative figures for 2011

	2012	2011
Revenues:		
Provincial Health Services Authority contributions	$ 49,553	$ 49,683
Medical Services Plan	5,424	5,015
Amortization of deferred capital contributions	657	642
Other (note 11(b))	522	179
Other contributions (note 11(a))	360	701
	56,516	56,220
Expenses:		
Compensation and benefits	42,312	40,911
Equipment and building services	5,568	6,257
Referred-out and contracted services (note 11(c))	5,181	5,040
Supplies (note 11(d))	1,596	1,837
Sundry (note 11(e))	893	979
Amortization of capital assets	734	704
Accretion of asset retirement obligations (note 10(d))	58	15
	56,342	55,743
Excess of revenues over expenses	$ 174	$ 477

See accompanying notes to financial statements.

FORENSIC PSYCHIATRIC SERVICES COMMISSION

Statement of Changes in Net Assets (Deficiency)
(Expressed in thousands of dollars)

Year ended March 31, 2012, with comparative figures for 2011

	Invested in capital assets	Unrestricted	Total 2012	Total 2011
Balance, beginning of year	$ 219	$ 8,527	$ 8,746	$ 8,269
Excess (deficiency) of revenues over expenses	(77)	251	174	477
Transfer to invested in capital assets (note 9(c))	33	(33)	-	-
Balance, end of year	$ 175	$ 8,745	$ 8,920	$ 8,746

See accompanying notes to financial statements.

FORENSIC PSYCHIATRIC SERVICES COMMISSION

Statement of Cash Flows
(Expressed in thousands of dollars)

Year ended March 31, 2012, with comparative figures for 2011

	2012	2011
Cash flows from operating activities:		
Excess of revenues over expenses	$ 174	$ 477
Items not involving cash:		
Amortization of capital assets	734	704
Amortization of deferred capital contributions	(657)	(642)
Accretion of asset retirement obligations	58	15
Retirement allowance expense	151	149
Net change in non-cash operating items (note 12(a))	(270)	(661)
	190	42
Cash flows from investing activities:		
Purchase of capital assets	(854)	(185)
Cash flows from financing activities:		
Capital contributions	854	184
Repayment of capital leases	(33)	(32)
Retirement allowance benefits paid	(125)	(118)
	696	34
Increase (decrease) in cash	32	(109)
Cash, beginning of year	59	168
Cash, end of year	$ 91	$ 59

See accompanying notes to financial statements.

The Forensic Psychiatric Services Commission (the "Commission") was established as a Crown Corporation in November 1998 under the Order of the Lieutenant Governor in Council No. 1424. Pursuant to a transfer agreement, the Commission assumed budget and staff resources from the Ministry of Health on April 1, 1999.

The Commission is a member of the Provincial Health Services Authority ("PHSA" or the "Authority") which was created under the *Society Act of British Columbia* on December 12, 2001 with a Board of Directors appointed by the Ministry of Health and is one of six Health Authorities in British Columbia ("BC"). The Commission is dependent on the Ministry of Health to provide sufficient funds to continue operations, replace essential equipment and complete its capital projects. The Commission is a not-for-profit organization under the *Income Tax Act* of Canada, and as such is exempt from income and capital taxes.

The following agencies/programs are also included in PHSA:

British Columbia Cancer Agency Branch;

British Columbia Centre for Disease Control and Prevention Society Branch;

British Columbia Mental Health Society (Riverview) Branch;

British Columbia Provincial Renal Agency;

British Columbia Transplant Society Branch;

Cardiac Services British Columbia;

Children's & Women's Health Centre of British Columbia Branch;

Emergency and Health Services Commission;

Health Shared Services BC; and

Mental Health and Addictions Research Institute.

Effective December 31, 2001, the above noted branch societies except for the Mental Health and Addictions Research Institute, Health Shared Services BC, and Emergency and Health Services Commission were amalgamated with, and continue the operations of, their respective former societies under bylaws and constitutions consistent with the PHSA. The amalgamated Commission is considered a continuation of the former Commission for financial reporting purposes.

The Commission operates the Forensic Psychiatric Hospital and six community forensic psychiatric services clinics. The Commission conducts fitness assessments of individuals appearing before the courts and provides treatment to those found not guilty by reason of mental disorder.

1. Significant accounting policies:

(a) Basis of presentation:

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

(b) Revenue recognition:

The Commission follows the deferral method of accounting for contributions which include donations and government grants.

Under the *Hospital Insurance Act and Regulations* thereto, the Commission is funded primarily by the Province of British Columbia in accordance with budget management plans and performance agreements established and approved by the Ministry of Health.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Externally restricted contributions are recognized as revenue in the period in which the related expenses are incurred. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on the same basis as the related capital assets are depreciated. Contributions restricted for the purchase of non-depreciable capital assets are recognized as a direct increase in net assets.

(c) Asset and service contributions:

Volunteers contribute a significant amount of time each year to assist the Commission in carrying out its programs and services. Because of the difficulty of determining their fair value, contributed services are not recognized in these financial statements.

Contributions of assets, supplies and services that would otherwise have been purchased are recorded at fair value at the date of contribution, provided a fair value can be reasonably determined.

(d) Inventories of materials and supplies:

Inventories are recorded at the lower of weighted average cost and replacement cost.

(e) Capital assets:

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. The Commission records amortization on its assets on a straight-line basis over the useful life of the assets as follows:

Land improvements	20 years
Leasehold improvements	Lease term to a maximum of 20 years
Equipment	3 - 20 years
Equipment under capital lease	5 - 7 years
Software license fees	3 - 5 years
Vehicles	4 - 7 years

1. Significant accounting policies (continued):

(f) Employee future benefits:

Liabilities, net of plan assets, are recorded for employee retirement allowance benefits as employees render services to earn the benefits.

The actuarial determination of the accrued benefit obligations uses the projected benefit method prorated on service (which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees, and other actuarial factors). For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Actuarial gains and losses that exceed 10% of the benefit obligation are amortized over the average remaining service period of active covered employees. The average remaining service period of the active covered employees entitled to retirement allowance benefits is 10 years (2011 - 10 years). Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

Defined contribution plan accounting is applied to multi-employer defined benefit plans and, accordingly, contributions are expensed.

(g) Asset retirement obligations:

The Commission recognizes an asset retirement obligation in the period in which it incurs a legal obligation associated with the retirement of a tangible long-lived asset including leased premises resulting from the acquisition, construction, development, and/or normal use of the asset. The fair value of the asset retirement cost is capitalized as part of the carrying value of the related long-lived asset and is depreciated over the life of the asset. The liability may be changed to reflect the passage of time and changes in the fair value assessment of the retirement obligation.

(h) Measurement uncertainty:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Management reviews all significant estimates affecting its financial statements on a recurring basis and records the effect of any necessary adjustments. Significant areas requiring the use of estimates include determination of rates of amortization of capital assets, recognition of asset retirement obligations, contingencies and, in particular, assumptions with respect to accrued retirement allowance benefits. Actual results could differ from the estimates.

1. Significant accounting policies (continued):

(i) Financial instruments:

The Commission has designated all non-derivative financial assets and liabilities as held-for-trading with the exception of certain obligations designated as other liabilities and receivables which are designated as held-to-maturity.

- The Commission initially records all non-derivative financial assets and liabilities at fair value.
- Assets and liabilities classified as held-for-trading are measured at fair value and changes in fair value are recognized in the statement of operations.
- Receivables are measured at amortized cost using the effective interest rate method.
- Other liabilities are recorded at amortized cost.
- All transaction costs incurred on receivables and other liabilities are incorporated in the fair value of the instrument and are amortized to operations using the effective interest rate method.

Assets and liabilities classified as available for sale are measured at fair value and changes in fair value are recorded in the statement of changes in net assets until the financial instruments are de-recognized or other than temporarily impaired at which time the amounts are recorded in the statement of operations. The Commission has not classified any assets or liabilities as available for sale.

Derivative instruments are recorded as either assets or liabilities measured at their fair value unless exempted from derivative treatment as normal purchase and sale. Certain derivatives embedded in other contracts must also be measured at fair value. All changes in the fair value of derivatives are recognized as earnings unless specific hedge criteria are met, which require that an entity must formally document, designate and assess the effectiveness of the transaction that received hedge accounting.

The Commission's financial instruments include cash, restricted cash, accounts receivable, and accounts payable and accrued liabilities. It is management's opinion that the Commission is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these instruments approximate their carrying values. The Commission has elected not to apply the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 3862, *Financial Instruments – Disclosure*, and 3863, *Financial Instruments - Presentation*. Sections 3862 and 3863 place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how an entity manages those risks. The Commission has elected to continue to apply the financial instrument disclosure and presentation standards in accordance with Section 3861.

1. Significant accounting policies (continued):

(j) Future accounting framework:

Effective April 1, 2012, the Commission will transition to a new accounting framework which will include Public Sector Accounting Standards supplemented by directives from the Government of British Columbia's Treasury Board.

The transition to the new accounting framework will be applied on a retrospective basis. The Commission is reviewing the impact of these changes on the financial statements.

2. Accounts receivable:

	2012	2011
Provincial Health Services Authority	$ 14,538	$ 15,671
Federal and provincial sales taxes	1,115	480
Other health authorities and BC government reporting entities	299	240
Ministry of Health	221	494
Patients, clients and agencies	35	50
Other	82	163
	$ 16,290	$ 17,098

3. Inventories of materials and supplies:

The Commission's inventories of $79 (2011 - $79) are recorded at the lower of weighted average cost and replacement cost and consist of medical and surgical supplies. During the year, $261 (2011 - $400) of inventories were expensed by the Commission.

4. Capital assets:

2012	Cost	Accumulated amortization	Net book value
Land improvements	$ 43	$ 43	$ -
Building service equipment	1,136	232	904
Construction in progress	245	-	245
Leasehold improvements	2,542	1,814	728
Equipment	3,902	3,013	889
Equipment under capital lease	206	168	38
Software license fees	30	30	-
Vehicles	428	338	90
	$ 8,532	$ 5,638	$ 2,894

4. Capital assets (continued):

2011	Cost	Accumulated amortization	Net book value
Land improvements	$ 43	$ 34	$ 9
Building service equipment	992	162	830
Leasehold improvements	2,542	1,603	939
Equipment	3,249	2,632	617
Equipment under capital lease	206	135	71
Software license fees	30	30	-
Vehicles	617	309	308
	$ 7,679	$ 4,905	$ 2,774

5. Accounts payable and accrued liabilities:

	2012	2011
Trade accounts payable and accrued liabilities	$ 2,305	$ 3,256
Salaries and benefits payable	2,363	2,308
Accrued vacation pay	1,677	1,411
Patient trust funds	137	126
	$ 6,482	$ 7,101

6. Obligations under capital leases:

The Commission leases equipment over terms which expire between fiscal years 2013 and 2014. The following is a schedule of minimum lease payments under fixed rate capital leases, together with the balance of the obligations.

	2012	2011
2012	$ -	$ 38
2013	33	33
2014	11	10
Total minimum lease payments	44	81
Amount representing interest at a weighted average rate of 1.45% (2011 - 4.24%)	(1)	(5)
Present value of capital lease payments	43	76
Current portion of obligations under capital leases	33	33
Long-term portion of obligations under capital leases	$ 10	$ 43

7. Employee benefits:

(a) Retirement allowance:

Certain employees with ten or more years of service and having reached a certain age are entitled to receive special payments upon retirement or as specified by the collective agreements. These payments are based upon accumulated sick leave credits and entitlements for each year of service.

The Commission's liabilities are based on an independent actuarial valuation performed as at the early measurement date of December 31, 2009, from which the service cost and interest cost components of expense for the fiscal year ended March 31, 2012, are derived, and an extrapolation of the valuation performed as at December 31, 2009, from which the March 31, 2012 accrued benefit obligations are derived. The next required valuation will be as of December 31, 2012.

Information about retirement allowance benefits is as follows:

	2012	2011
Accrued benefit obligation:		
Sick leave benefits	$ 2	$ 3
Severance benefits	1,471	1,385
Total unfunded obligation	1,473	1,388
Balance of unamortized amounts	(64)	(5)
Accrued retirement allowance benefits	1,409	1,383
Current portion	141	149
Long-term portion	$ 1,268	$ 1,234
Retirement allowance expense	$ 151	$ 149
Benefits paid	125	118

The significant actuarial assumptions adopted in measuring the Commission's retirement allowance liabilities are as follows:

	2012	2011
Accrued benefit obligation as at March 31:		
Discount rate	4.30%	5.25%
Rate of compensation increase	2.50%	2.50%
Benefit costs for year ended March 31:		
Discount rate	5.25%	6.25%
Rate of compensation increase	2.50%	2.50%

7. Employee benefits (continued):

(b) Employee pension benefits:

The Commission and its employees contribute to the Public Service Pension Plan, a multi-employer defined benefit pension plan governed by the *BC Public Sector Pension Plans Act.*

Employer contributions to the Public Service Pension Plan of $2,290 (2011 - $2,246) were expensed during the year. Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The most recent actuarial valuation for the plan at March 31, 2011 indicated an unfunded liability of $275,000. The actuary does not attribute portions of the surplus to individual employers. The plan covers approximately 57,000 active members of which 554 are employees of the Commission. The next valuation will be as at March 31, 2014 with results available in 2015.

8. Deferred capital contributions:

Deferred capital contributions represent externally restricted contributions and other funding received for the purchase of capital assets. The amortization of deferred capital contributions is recorded as revenue in the statement of operations.

	2012	2011
Deferred capital contributions, beginning of year	$ 2,479	$ 2,937
Provincial Health Services Authority	853	181
Other	1	3
	854	184
Less amortization for the year	(657)	(642)
Deferred capital contributions, end of year	$ 2,676	$ 2,479

9. Invested in capital assets:

(a) Invested in capital assets is calculated as follows:

	2012	2011
Capital assets	$ 2,894	$ 2,774
Amounts financed by:		
Deferred capital contributions	(2,676)	(2,479)
Obligations under capital leases	(43)	(76)
	(2,719)	(2,555)
	$ 175	$ 219

9. Invested in capital assets (continued):

(b) Deficiency of revenues over expenses:

	2012	2011
Amortization of deferred capital contributions	$ 657	$ 642
Amortization of capital assets	(734)	(704)
	$ (77)	$ (62)

(c) Transfer to invested in capital assets:

	2012	2011
Purchase of capital assets	$ 854	$ 185
Asset retirement obligation	-	3
Amounts funded by:		
Deferred capital contributions	(854)	(184)
Principal payments of obligations under capital leases	33	32
	$ 33	$ 36

10. Commitments and contingencies:

(a) Operating leases:

The aggregate minimum future annual rentals under operating leases are as follows:

2013	$ 448
2014	291
2015	188
2016	99
	$ 1,026

The Commission leases land and buildings through an operating lease with Shared Services British Columbia ("SSBC") of the Ministry of Labour, Citizens' Services & Open Government. Lease payments shown are for base rent. The terms and conditions are negotiated annually. Included in the above is $239 for lease payments to SSBC for the year ending March 31, 2013.

10. Commitments and contingencies (continued):

(b) Litigation and claims:

The nature of the Commission's activities is such that there will be litigation pending or in progress at any time. With respect to claims at March 31, 2012, management is of the opinion that it has valid defenses and appropriate insurance coverage in place, or if there is unfunded risk, such claims are not expected to have a material effect on the Commission's financial position. Outstanding contingencies are reviewed on an ongoing basis and are provided for based on management's best estimate of the ultimate settlement.

(c) Risk management:

Risk management and insurance services for all Health Authorities in British Columbia are provided by the Risk Management Branch of the Ministry of Finance.

(d) Asset retirement obligations:

The Commission has accrued asset retirement obligations of $426 (2011 - $368) representing the fair value of the legal obligations related to leased premises after charges for accretion and amortization. The settlement of these obligations will occur at the expiry of the leases. The fair value of the legal obligation was determined by discounting the estimated cash outflows of $457 (2011 - $457) over the respective lease terms at a credit-adjusted risk free rate of 5.26% for existing obligations and 4.00% for new obligations (2011 – 4.81%). The asset retirement obligations have been capitalized as part of capital assets and will be amortized over the respective premise lease terms.

11. Statement of operations:

(a) Other contributions:

	2012	2011
Other Ministries	$ 360	$ 701

(b) Other revenues:

	2012	2011
Recoveries from sales of goods and services	$ 414	$ 131
Recoveries from other health authorities and BC government reporting entities	56	40
Other	52	8
	$ 522	$ 179

11. Statement of operations (continued):

(c) Referred out and contracted services:

	2012	2011
Private contractors	$ 4,880	$ 4,551
Other health authorities and BC government related entities	301	489
	$ 5,181	$ 5,040

(d) Supplies:

	2012	2011
Food and dietary	$ 704	$ 695
Drugs and medical gases	548	783
Printing, stationery and office	105	88
Medical and surgical	55	45
Laundry and linen	35	43
Diagnostic	25	34
Housekeeping	8	9
Other	116	140
	$ 1,596	$ 1,837

(e) Sundry:

	2012	2011
Professional fees	$ 259	$ 326
Travel	258	292
Communication and data processing	17	14
Other	359	347
	$ 893	$ 979

12. Statement of cash flows:

(a) Net change in non-cash operating items:

		2012		2011
Net change in non-cash operating items:				
Restricted cash	$	(11)	$	(43)
Accounts receivable		808		299
Inventories of materials and supplies		-		4
Prepaid expenses		(448)		(17)
Accounts payable and accrued liabilities		(619)		(904)
	$	(270)	$	(661)

(b) Purchase of capital assets:

Assets purchased or acquired through debt or other non-cash transactions are excluded from purchase of capital assets on the statement of cash flows.

		2012		2011
Purchase of capital assets (note 9(c))	$	854	$	185
Supplementary information:				
Cash paid for interest on capital leases	$	1	$	1
Non-cash transactions:				
Additions to asset retirement obligations		-		3

13. Related party transactions:

(a) Related party transactions with PHSA and members:

Certain administrative, finance and accounting, and human resource services are provided to the Commission by PHSA without charge. The costs of these services have not been recorded in the financial statements of the Commission.

During the year, the Commission was involved in the following related party transactions with other PHSA members:

For the year ended March 31, 2012, expenses include $92 (2011 - $639) resulting from transactions with other PHSA members.

The above amounts exclude transactions with PHSA which are disclosed elsewhere in these financial statements.

14. Capital management:

The Commission receives its principal source of capital through funding received from the Ministry of Health. The Commission defines capital to be net assets and deferred capital contributions.

The Commission's objective when managing capital is to fund its operations and capital asset additions, and to conduct research in the field of health care. The Commission manages the capital structure in conjunction with the Ministry of Health and makes adjustments based on available government funding and economic conditions. Currently, the Commission's strategy is to monitor expenditures to preserve capital in accordance with budgeted funding granted by the Ministry of Health.

The Commission is not subject to debt covenants or any other capital requirements with respect to operating funding. Funding received for designated purposes must be used for the purpose outlined in the funding letter. The Commission has complied with the external restrictions on the funding provided.

15. Comparative figures:

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.